

MARKET CONDUCT EXAMINATION

ILLINOIS NATIONAL INSURANCE COMPANY

NEW HAMPSHIRE INDEMNITY COMPANY

AIG NATIONAL INSURANCE COMPANY

**300 SOUTH RIVERSIDE PLAZA, SUITE 2100
CHICAGO, IL 60606-6614**

January 1, 2004 – December 31, 2004

EXHIBIT A

G05-84

Illinois National Insurance Company
New Hampshire Indemnity Company
AIG National Insurance Company



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The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following Companies:

Illinois National Insurance Company NAIC # 23817
AIG National Insurance Company, Inc. NAIC # 36587
New Hampshire Indemnity Company, Inc. NAIC # 23833

In this report, the above entities are collectively referred to as "the Companies".

This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Illinois National Insurance Company and affiliates during the course of this market conduct examination, including the people assigned to provide daily support to the examiners.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

SCOPE

Time Frame

The examination covered the Companies' operations from January 1, 2004 through December 31, 2004. This is the first examination of these personal lines AIG affiliated Companies. The examination was performed in the Companies' regional claims office in Renton, Washington and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Agent Activities
- Complaints
- Underwriting and Rating
- Rate & Form Filings
- Cancellations and Non-Renewals
- Claims Settlement Practices

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92%	Confidence Level
+/- 5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the Companies follow established procedures.

Standards will be reported as Passed (without comment), Passed with Comment or Failed. The definition of each category follows.

Passed	There were no adverse findings for this standard.
Passed with Comment	The records reviewed fell within the tolerance level for that standard.
Failed	The records reviewed fell outside of the tolerance level established for the standard.

COMPANY HISTORY AND OPERATIONS

Illinois National Insurance Company was incorporated under the laws of Illinois on October 5, 1933. The Company was a result of consolidating the United States Underwriters of Jacksonville, Illinois, and Illinois National Casualty Company. After several name changes the Company's current title emerged in 1956. Financial control of the Company is held by the American International Group, Inc., New York, New York. The Company was admitted to Washington on April 10, 1978. Kristian P. Poor is Chairman of the Board and the Company's President.

AIG National Insurance Company was incorporated as Abeille General Insurance Company, Inc. in New York on December 12, 1994 and was admitted to Washington on March 25, 1996. The current name was adopted on February 1, 1997. Financial Control of the Company is held by the New Hampshire Company, Inc., a wholly owed subsidiary of the American International Group, an insurance holding company. Anthony P. Pavia is the Company's President.

New Hampshire Indemnity Company, Inc. was incorporated on December 13, 1951 in New Hampshire under the name Manchester Insurance Corporation until October 19, 1972 when the current name was adopted. The Company was admitted to Washington September 1, 1977. Financial control is held by American International Group, an insurance holding company. Anthony P. Pavia is the Company's President and CEO.

These three Companies market private passenger automobile coverage in Washington through traditional independent agent/agency channels. New Hampshire Indemnity Company also markets motorcycle coverage.

Operations and Management Standard #2 does not apply to examinations of foreign companies.

The following Operations and Management Standards Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The Company maintains full and accurate records and accounts.	RCW 48.05.280

#	GENERAL EXAMINATION STANDARD	REFERENCE
4	The Company filed an antifraud plan with the Office of Insurance Commissioner.	RCW 48.30A.045

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The Company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06

Standard #2: Twenty one (21) claim files contained correspondence that did not identify the insuring company. See Appendix 1 for details.

Subsequent event: The Companies provided sample documents and written confirmation that templates had been corrected to include the name of the insuring company on correspondence. The Companies also held a training session for claim handlers in the Renton office on April 27, 2005.

AGENT ACTIVITIES

Agent license and appointment records for agents who wrote the policies selected for the underwriting sample were reviewed by the examiners. The examiners also reviewed a sample of records from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies agent licensing records with the OIC records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

The following Agent Activity Standard Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way.	RCW 48.17.060(1) and (2)

The following Agent Activity Standard Failed:

#	AGENT ACTIVITY STANDARD	REFERENCE
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company.	RCW 48.17.160

Standard #2: Approximately 2,500 policies were issued by two agencies who were not appointed by the Companies at the time the policies were solicited. Policy lists are contained in the examiner's work papers. The Companies immediately took steps to appoint Fournier Agency of Chehalis and Insurance West of Kent when the error was discovered by the examiners and provided documentation that these appointments are now in place.

COMPLAINTS

The examiners reviewed 25 of 185 complaints filed with the OIC between January 1, 2002 and December 31, 2004.

Files were reviewed to determine if the Companies responded to complaints filed with the OIC within time frames stated in its procedures and those required by Washington regulation. Files were reviewed for adverse trends. The examiners also reviewed the Companies' complaint handling procedures.

Findings

The following Complaint Standard Passed without Comment:

#	COMPLAINT STANDARD	REFERENCE
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication.	WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4

UNDERWRITING AND RATING

The examiners selected 50 of 432,205 policies that were either new or renewed during the examination period.

Files were reviewed to determine if the Companies:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Companies' computer system and if the Companies were using the filed and approved rates.

Underwriting standards #5 and #6 apply to commercial policies are not applicable to this examination.

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.	RCW 48.22.030(3) and (4)
4	During underwriting, the Company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130, RCW 48.30.310, Bulletin 79-3
7	The Company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574
8	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received.	WAC 284-30-560(2)(a)
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquiries; collections identified with medical industry code; the purchase of a new vehicle or home (exceptions); or the total available line of credit. <i>Effective 6/30/03.</i>	WAC 284-24A-065(1) through (6)
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. <i>Effective 6/30/03</i>	WAC 284-24A-010(1) and (2)
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003.	WAC 284-24A-015(1)
12	No insurer may alter an application for insurance without the insured's written permission.	RCW 48.18.070

The following Underwriting Standard Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.085(2)

Standard # 3: Two (2) policies did not have PIP coverage which is mandatory unless the Company has a signed PIP rejection from the insured. See Appendix 2 for details.

The following Underwriting Standard Failed:

#	UNDERWRITING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560

Standard #1: Three (3) application and/or binder forms were used by the Companies since 2000. The forms were in violation either because the insuring company was not identified, or did not identify the time or date the coverage would become effective. See Appendix two for detail.

Subsequent event: The Companies have filed a new application with a binder to correct the various issues addressed in the examination.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the underwriting sample for the rate and form filings review. The purpose was to determine if the Companies were complying with the laws regarding rate and form filing.

Rate and form filing Standard # 5 and Standard #7 apply to commercial policies and are not applicable to this examination.

Findings

The following Rate and Form Filing Standards Passed without Comment:

#	POLICY PROVISION STANDARD	REFERENCE
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use.	RCW 48.18.100 or RCW 48.18.103
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect.	RCW 48.19.040
4	The policy must contain all endorsements and forms.	RCW 48.18.190
6	Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095, RCW 48.22.005

The following Rate and Form Filing Standard Failed:

#	POLICY PROVISION STANDARD	REFERENCE
3	The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage limits.	RCW 48.18.140(1) and (2)(a)-(f)

Standard #3: Two hundred thirty five thousand four hundred sixty two policies (235,462) issued by the Companies did not identify the time the policy became effective, as required. The Companies indicated that this was the estimated number of new and renewal policies issued between January 1, 2000 and March 31, 2005 that did not have this required information on the policy. See Appendix 2 for detail.

Subsequent event: The Companies advised that corrective action has been taken and that all new and renewal policies issued since May 12, 2005 are in compliance.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Companies were in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample of 75 of 16,595 policies that were either cancelled or non-renewed during the exam period.

Findings

The examiners returned the following policies to underwriting management for review and correction if necessary.

- One policy was non-renewed. The Company could not produce the non-renewal notice. This appeared to be an isolated incident caused by a manual coding error that did not trigger a printed notice.
- Two policies were non-renewed because the insured did not provide requested information. The underwriter's request for information was sent to the agent. There was no way to ensure that the insured was ever contacted. These files were referred to the Companies with a recommendation to review the procedure.
- All of the cancellation notices in the sample contained a notice that stated the cancellation would be reported to the motor vehicle division and motor vehicle registration may be suspended. The Companies advised this would be removed from Washington forms.

The following Cancellation and Non-renewal Standards Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company.	RCW 48.17.591

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
2	The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292

The following Cancellation and Non-renewal Standard Failed:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570, Bulletin 96-2

Standard #3: Five (5) policies contained cancellation or non-renewal notices that contained non-standard abbreviations which would require an insured to do additional research to fully understand the reason for the Company's decision. See Appendix 3 for detail.

CLAIM SETTLEMENT PRACTICES

The examiners reviewed 100 of 7,106 claims that were closed during the exam period. They also reviewed 25 additional claims that contained settlements of first party total losses. The primary claims department for Washington claims is in Renton, Washington. The Companies handle personal injury protection claims from their office in Phoenix, AZ.

Files were reviewed for:

- Compliance with Washington law
- Timeliness of contact with claimants
- Promptness of payments
- Explanation of applicable coverage
- Procedures for establishing actual cash value of total loss vehicles
- Documentation of claim files

Findings

Three files were returned to management for review and correction if necessary:

- Two files were processed with the wrong deductible resulting in underpaying the claim. Additional payments totaling \$1,300 were paid to two insureds.
- One file was processed with the wrong deductible resulting in overpaying the claim. The insured was overpaid by \$50.

The following Claims Standards Passed without Comment:

#	CLAIM STANDARD	REFERENCE
3	The Company provided an explanation of all pertinent coverage to first party claimants.	WAC 284-30-350
5	The Company complies with the requirement for prompt investigation of claims.	WAC 284-30-370
6	The Company must accept or deny coverage within 15 days after receiving proof of claim.	WAC 284-30-380
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits.	WAC 284-30-395
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required.	RCW 46.12.070, WAC 308-56A-460

The following Claims Standards Passed with Comment:

#	CLAIM STANDARD	REFERENCE
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act.	WAC 284-30-330
2	The Company claim files contain detailed log notes and work papers so as to allow the examiners to reconstruct the claim file.	WAC 284-30-340
4	The Company acknowledges receipt of a claim within 10 days, and responds to all communications on a claim file within the time frames prescribed.	WAC 284-30-360(1) and (3)
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.	WAC 284-30-390, or 3901-3916 as applicable

Standard #1: One claim was not paid within the required time frame of fifteen business days after the Company lost in arbitration. (See Appendix 4)

Standard #2: One file did not contain any documentation or log notes to show how the Company established the salvage value. (See Appendix 4)

Standard #4: One file contained subrogation demands from the claimant's carrier. There was no evidence of the Company ever responding to those letters. (See Appendix 4)

Standard #7: One file did not contain information to show how the Company established the salvage value of the total loss vehicle. (See Appendix 4)

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The Company is required to be registered with the Office of Insurance Commissioner prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The Company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies. (RCW 48.07.070)	NA		

General Examination Standards:

#	STANDARD	PAGE	PASS	FAIL
1	The Company made available to the examiners all requested information, and otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	7	X	
2	The Company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Bulletin T 2000-06)	8		X
3	The Company maintains full and accurate records and accounts. (RCW 48.05.280)	7	X	
4	The Company filed an antifraud plan with the Office of Insurance Commissioner. (RCW 48.30A.045)	8	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The Company' advertising materials do not contain any false, deceptive or misleading representations. (RCW 48.30.040)	N/A		
2	The Company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)	N/A		
3	The Company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Bulletin T 2000-06)	N/A		
4	The Company is required to show the actual financial condition of the Company as it corresponds with the financial statements published by each Company and must include only those assets actually owned and possessed by the Company exclusively. (RCW 48.30.070)	N/A		

#	STANDARD	PAGE	PASS	FAIL
5	The Company does not advertise the existence of the Washington Insurance Guaranty Association. (RCW 48.30.075)	N/A		
6	The Company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)	N/A		
7	The Company do not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)	N/A		
8	The Company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. (RCW 48.30.140, RCW 48.30.150)	N/A		

Agent Activity:

#	STANDARD	PAGE	PASS	FAIL
1	The Company ensures that agents are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the Company in any way. (RCW 48.17.060(1) and (2))	8	X	
2	The Company requires that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. (RCW 48.17.160)	8		X

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Advisory T 98-4)	9	X	

Underwriting and Rating:

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days,	11		X

#	STANDARD	PAGE	PASS	FAIL
	whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560(2))			
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. (RCW 48.22.030(3) and (4))	10	X	
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10	X	
4	During underwriting, the company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision. (WAC 284-24-100)	NA		
6	The company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	NA		
7	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer which is bound by the form, briefly describe the coverage, state the date and time coverage is effective and acknowledge any premium received. (WAC 284-30-560(2)(a))	10	X	
9	An insurer, when using credit scoring to underwrite, may not use the following factors: the number of credit inquiries; collections identified with medical industry code; the purchase of a new vehicle or home (exceptions); or the total available line of credit. WAC 284-24A-065(1) through (6) <i>Effective 6/30/03.</i>	10	X	
10	The insurer informs the consumer of the significant factors adversely affecting the credit history or insurance score and explains significant factors that lead to adverse action in clear and simple language. <i>Effective 6/30/03</i>	10	X	
11	The insurer filed the credit scoring model by January 1, 2003. Related rates, risk classification plans, rating factors and rating plans were filed and approved by June 30, 2003. (WAC 284-24-A-015)	10	X	
12	No insurer may alter an application for insurance without the insured's written permission. RCW 48.18.070	10	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100, RCW 48.18.103)	11	X	
2	Where required, the Company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040)	11	X	
3	The policy must identify all forms that make up the policy. The policy will identify the effective time and date of the policy. The policy will identify all coverage limits. (RCW 48.18.140(1) and (2)(a)-(f))	13		X
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	N/A		
6	Personal Injury Protection forms issued by the Company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	N/A		

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The Company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	12	X	
2	The Company sends offers to renew or cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	12	X	
3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	13		X

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The Company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)	14	X	
2	The Company claim files contain detailed log notes and work papers so as to allow reconstruction of the claim file. (WAC 284-30-340)	14	X	
3	The Company provided an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)	14	X	
4	The Company acknowledged receipt of a claim within 10 days, and respond to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1) and (3))	14	X	
5	The Company complies with requirement for prompt investigation of claims. (WAC 284-30-370)	14	X	
6	The Company must accept or deny coverage within 15 days after receiving proof of claim. (WAC 284-30-380)	14	X	
7	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390, or WAC 284-30-3901-3916)	14	X	
8	The Company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial of benefits. (WAC 284-30-395)	14	X	
9	The Company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)	14	X	

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTION	PAGE
1	The Companies are instructed to comply with RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T2000-06 and ensure that the legal name of the Company is clearly identified in all correspondence, releases, and checks. (General Examination Standard #2)	8
2	The Companies are instructed to comply with RCW 48.17.060(1) and (2), and ensure that all agents and agencies are appointed with each Company prior to allowing them to solicit business for the Company. (Agent Activity Standard #2)	8 and 9
3	The Companies are instructed to comply with RCW 48.18.230(1) and WAC 284-30-560 to ensure that binders issued to temporarily secure coverage are valid until the policy is issued or ninety days, whichever is shorter. The Company is further instructed to ensure the binders identify the Company providing the coverage and effective time and dates. (Underwriting Standard #3)	11
4	The Companies are instructed to comply with RCW 48.18.140(1) and (2)(d) to ensure that all policies issued contain the required information regarding effective time and dates of coverage. (Rate and Form Filing Standard #3)	12
5	The Companies are instructed to comply with WAC 284-30-570 and Bulletin 96-2 to ensure that all cancellation and non-renewal notices include the true and actual reason for the action and are in clear and simple language so that the insured is not required to do additional research to understand the company's decision. (Cancellation and Non-Renewal Standard #3)	13

APPENDIX 1

GENERAL EXAMINATION STANDARD #2	The Company conducts business in its own legal name.
Policy or claim #	Comments
64700017690000	The Company issued a "Reservation of Rights" notice to its insured using two incorrect insuring Company names.
668XN00011325000	The Company used the wrong Company name on its correspondence.
310KJ058914	The Company used the wrong Company name on its correspondence and fax
310KJ070993CM	The Company used the wrong Company name on its correspondence.
001367	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
055072	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00550752	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00563957	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
566075	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00554467	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
006794	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
001672	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00572440	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
001628000	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
071097	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
72435000	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
562900	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.

001559	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00531493	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
00547486	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
000694	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.
070059	The Company failed to identify the insuring Company or used the wrong Company name on correspondence.

APPENDIX 2

UNDERWRITING AND RATING STANDARD #1	BINDERS ARE VALID UNTIL THE POLICY IS ISSUED OR 90 DAYS WHICH EVER IS SHORTER & SHALL IDENTIFY THE INSURING COMPANY AND EFFECT DATES.
Policy number	Comments
AIG 7208586	Two insuring companies were listed on the application/binder with no way to distinguish which one was applicable. The binder also did not state the time and date when the coverage would be effective.
AIG 4682955	There was no statement to show what would cause the coverage to commence or the date and time it would commence.
AIG 7332347	There was no statement to show what would cause the coverage to commence or the date and time it would commence.
UNDERWRITING AND RATING STANDARD #3	The Company is required to obtain a written rejection to Personal Injury Protection (PIP) coverage from the insured.
Policy number	Comments
AIG 0452307	The Company was unable to locate the signed PIP rejection form.
AIG 4981516	The Company was unable to locate the signed PIP rejection form.
UNDERWRITING AND RATING STANDARD #8	Binder/Applications must identify the insurer which is bound by the form & acknowledge receipt of the amount of premium money received. The name of the insurer must be identified and show an effective date.
Policy number	Comments
	The Companies have re-filed their personal auto application with binding options in May 2005 to correct any errors.

APPENDIX 3

CANCELLATION AND NON- RENEWAL STANDARD #3	The Company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.
AIG 2261851	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: UPLD CC RTND DN PMT NO REIN.
AIG 4916947	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: UPLD NSF PMT NO REIN.
AIG 4993320	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: UPLD NSF PMT NO REIN.
AIG 3880507	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: UPLD NSF PMT NO REIN.
AIG 3812813	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: NSF CK RCVD NON PMT OF PREMIUM."
AIG 2261851	The Company used abbreviations to explain the reason the policy was being cancelled. The abbreviations used were not standard abbreviations therefore it appeared that the insured would not understand the Company's decision without the need for additional research. The reason: UPLD CC RTND DN PMT NO REIN.

APPENDIX 4

CLAIMS SETTLEMENT STANDARD # 1 WAC 284-30- 330(16)	THE COMPANY SETTLES CLAIMS IN A MANNER THAT IS NOT IN CONFLICT WITH ANY SECTION OF THE UNFAIR CLAIMS SETTLEMENT ACT
Policy or claim #	Comments
0010850000	Settlement was not paid within the required time frames after the Company lost in arbitration.
CLAIMS SETTLEMENT STANDARD # 2 WAC 284-30-340	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file.
Policy or claim #	Comments
0010850000	File documentation explaining how the salvage value was determined was not in the file.
CLAIMS SETTLEMENT STANDARD # 4 WAC 284-30-360 (1) (3) and (4)	The Company acknowledges receipt of a claim within 10 days and responds to all communication on a claim file within the time frame prescribed and promptly provides reasonable assistance, forms and instruction to the first party claimants.
Policy or claim #	Comments
529271	Company did not respond to subrogation demands within 10 business days.
CLAIMS SETTLEMENT STANDARD # 7 WAC 284-30-390 AND WAC 284- 30-3901-3916	The Company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements.
0010850000	File documentation explaining how the salvage value was determined was not in the file.



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October 10, 2005

Mr. James T. Odiorne
Washington Department of Insurance
5000 Capitol Boulevard
Tumwater, WA 98501

RE: Washington Market Conduct Examination
AIG National Insurance Company, Inc.
Illinois National Insurance Co.
New Hampshire Indemnity Company, Inc.
Private Passenger Automobile

Dear Mr. Odiorne:

The following is our response to your letter dated September 7, 2005 regarding the draft report of examination of the private passenger automobile program written in the above referenced companies.

General Examination Standards

Standard #2 (Failed): We agree with this issue regarding correspondence not including the name of the insuring company. As indicated by the subsequent event comment, we are now complying by ensuring claims correspondence includes the name of the insuring company.

Agent Activity

Standard #2 (Failed): We agree with this issue regarding the non-appointments of 2 agencies. As indicated in the report, we immediately appointed the 2 agencies when the error was discovered. We will ensure all agents and agencies are appointed with each company prior to allowing them to solicit business.

Underwriting and Rating

Standard #3 (Passed with Comment): We agree with this issue regarding missing PIP rejection forms. We have communicated with underwriting management to reinforce quality with their processing support staff. They will continue to provide quality control feedback to their processing employees.

Standard #1 (Failed): We agree with this issue regarding older application versions did not clearly identify the insuring company or identify the time or date the coverage would become effective. As indicated by the subsequent event comment, we filed, obtained approval, and implemented a new application to correct the various issues addressed in the examination.

Rate and Form Filings

Standard #3 (Failed): We agree with this issue regarding the policy identifying the effective time and date. As indicated by the subsequent event comment, we implemented corrective action to our declaration page on or about May 12, 2005.

Cancellations and Non-Renewals

Standard #3 (Failed): We agree with this issue regarding non-standard abbreviations. Our underwriting management has evaluated and modified this process to ensure clear and specific reasons on cancellation and non-renewal notices.

Claims

Standard #1, 2, 4, & 7 (Passed with Comment): We agree with these comments regarding time frames and file documentation. We have communicated with claims management to reinforce quality with their processing support staff and adjusters. They will continue to provide quality control feedback to their processing employees and adjusters.

Per your recommendations and as indicated above, we have implemented and taken corrective actions to ensure compliance. We also express appreciation for the examiners courtesy and cooperation during the examination.

Should you have any questions, please let me know.

Sincerely,

Roger H. Osgood III
Compliance Director

On behalf of: AIG National Insurance Company, Inc.
Illinois National Insurance Co.
New Hampshire Indemnity Company, Inc.